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ABSTRACT

An examination of financing in higher education in Maryland concerned three major areas: equity in state financing among public institutions, state financing of private colleges and universities, and state capitalized loan projects. An assessment of the financial needs of public higher education over the next five years indicated that almost 70 percent more money will be needed by fiscal year (FY) 1978 in order to operate at approximately the same level as during FY 1977. Two essential questions were considered: whether the funds to cover these increased costs should originate with the state or the student and how the state's contribution to public higher education should be distributed among the public institutions to meet their needs and maintain equity of funding. The current and projected financial condition of 15 private schools was investigated, and the direct grant program was found to be the preferable method of financing. It was recommended that general fund support be increased to private institutions. A process for reviewing capital projects for private schools and a contract system for reserving spaces for students at private colleges were recommended. A $5 million state capitilized student loan program was recommended that would serve as a "lender of last resort" to students who have tried unsuccessfully to obtain loans through commercial lenders. Included in the appendices is the final report of the Task Force to Study Community College Funding. (SW)

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MARYLAND STATE BOARD FOR HIGHER EDUCATION

REPORT OF THE FINANCE COMMITTEE

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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INTRODUCTION

The State Board for Higher Education has received several requests from the General Assembly for an examination of the financing of higher education. These requests were in three major areas: equity in state financing among public institutions; state financing of private colleges and universities; and, state capitalized student loan programs.

The 1975 General Assembly requested a study of the equity in the approach to financing the segments of the State's higher education system. In Part I: FINANCING PUBLIC HIGHER EDUCATION IN MARYLAND, this subject is addressed and includes an assessment of the financial needs of public higher education over the next five years.

In making this examination of financing several fundamental problems were encountered.

1. It was necessary to develop a system of Statewide guidelines for projecting future higher education costs which was uniformly applicable to all segments but which took into account differences in activities among institutions.

2. Although each institution and each segmental board had an accounting system sufficient for its needs, there was no uniform Statewide accounting system for higher education

3. Although various methods of evaluating program performance were used by individual institutions and by segmental boards, there did not exist any standardized mechanism for use Statewide.

While the professional staff of the State Board for Higher Education was able to recommend a set of guidelines for the purposes of this study, the second and third problems were beyond the scope of the Committee's work. However, they are the subject of recommendations presented in this report.

The second request of the Committee was to study methods of providing State financing to private colleges and universities. The 1976 Report of the Chairmen of the Fiscal Committees of the General Assembly requested that the State Board for Higher Education consider the amount of aid to be provided and the methods of making the aid available. The Committee has based its recommendations on institutions presently eligible for the existing aid program. A review was also made of various methods used by other states to provide general revenue support to private higher education. Part II: STATE FINANCING OF PRIVATE HIGHER EDUCATION presents the Committee's findings.

The third request to the Committee, stated in the Joint Chairmen's Report for the 1976 Session of the General Assembly, was to study, in conjunction with the Maryland Higher Education Loan Corporation, the subject of direct State loans to students, including methods by which such a loan program might be organized and funded. Part III: STATE CAPITALIZED STUDENT LOAN PROGRAMS is the response to this request. The Committee conducted a study of the alternative methods of financing student education expenses which included federal programs, private programs, bank loans, and programs currently employed by other states. Detailed information was gathered from each of the eleven states that have initiated state capitalized loan programs. A separate document containing the information collected is available at the offices of the State Board for Higher Education.

The discussion and rationale in this Report are brief in the interest of gaining the widest possible readership. Additional information and Reports will be prepared and made available by the State Board for Higher Education.

PART I. FINANCING PUBLIC HIGHER EDUCATION IN MARYLAND

The Cost

Public higher education in Maryland will need almost 70 percent more money by Fiscal Year 1982 in order to operate at approximately the same level as it will during Fiscal Year 1977. This increase will not be due to an increase in the cost of educating each student but will result from continued inflation and to a lesser extent from increases in enrollments. The total direct cost of providing education for students in the public sector is expected to increase from $254 million to $428 million during the next five years (Table 1 and Appendix C, Table C-1).

The costs of education in each segment of the public system will be increased mainly by the expected continuation of the inflationary trends of the past few years. Estimating a moderate rate of inflation to continue, it is projected that most of the increase in the cost of public higher education will be due to inflation. If the costs of inflation were removed, over the next five years, the cost per student in the public sector would be expected to rise only from the present $2,037 to $2,058 in fiscal year 1982 (Appendix C, Table C-2).

The Finance Committee dealt with two essential questions: First, should the funds to cover these increased costs originate with the State or with the student? And, how can the State's contribution to public higher education be distributed among the public institutions so as to both meet their needs and maintain equity of funding?

TABLE I

ACTUAL AND PROJECTED ENROLLMENT AND COSTS OF PUBLIC HIGHER EDUCATION, 1977 and 1982, AT 6.5% INFLATION RATE

Fiscal Year	FTE Students	% Change	Total Cost	% Change In Total Cost	Cost Per Student
1977	124,953		$254,287,236		$2,035
1982	151,754	21.4	427,892,168	68.3	2,820

[1] FTE student is a standard measure of student enrollment. This measure is obtained by dividing the total credit hours taken by all students enrolled by the average number of credit hours of one full time student at a given level.

[2] Cost for FY 1982 are based on projection by the State Board for Higher Education.

What the State Pays

The State is involved in providing support in three distinct areas for public higher education institutions. These are indicated below. The first two areas are mentioned here but not treated further in this report. The third areas is the one that relates to providing instruction to students and is projected in detail with recommendations for the future.

1. Fringe benefits, debt service, and physical plant replacement reserve. The first two items are estimated to cost $30 million and $6 million (interest), respectively, each year. Replacement reserve is not technically budgeted, but it is estimated that about $20 million per year is necessary to replace physical facilities. These costs are totally paid by the State.

2. Non-instructional activities and educational activities at the Baltimore City Campus of the University of Maryland. Non-instructional activities include the University Hospital, UMCP Computer Science Center, Agricultural Extension, etc. UMAB is included due to its unique programs, for which cost projections using the guidlines are not appropriate. The State currently pays $54 million (51%) of the $106 million annual cost of these activities.

3. Activities necessary to provide instruction to students. These activities include faculty salaries, equipment and other resources for instruction, administration, student services, physical plant maintenance and operation, library, etc. The current annual cost of these activities is $254 million dollars. The State currently pays about $144 million toward these costs - about 57%. By segment the State cost is Community Colleges - $42 million (42%); State Colleges - $42 million (64%); and, the University of Maryland - $60 million (69%).

There are a number of self supporting activities at higher education institutions which the State does not participate in funding such as auxiliary enterprises, which are not included in this Report.

Cost Projections for Higher Education in 1982

Table 2 summarizes cost estimates for each segment of public higher education for fiscal year 1982.

These projections are based on a set of guidelines for instructional and other activities developed by the State Board for Higher Education which are presented in Appendix A. The projected costs assume an annual inflation rate for activities which averages 6.5%. In 1977 dollars, the cost per student would be expected to remain constant over the five year period. However, to provide for fiscal planning all dollars presented are inflated to the appropriate fiscal year using the State Board guidelines.

Who Pays?

These are two primary sources of funds to pay the educational costs outlined above - the State through general fund revenues, and the student through payment of tuition and fees. In Community Colleges the local subdivisions currently provide $29 million. The student's share often comes, in part, from student aid in the form of grants and loans.

TABLE 2

COST PROJECTIONS FOR EDUCATIONAL ACTIVITIES*

1. Community Colleges

Fiscal Year	Educational Cost	Total Students **	Cost Per Student
1977	$101,000,000	58,000	$1,737
1982	$190,000,000	77,000	$2,473

2. State Colleges and Universities

Fiscal Year	Educational Cost	Total Students	Cost Per Student
1977	$65,000,000	31,000	$2,078
1982	$110,000,000	38,000	$2,905

3. University of Maryland

Fiscal Year	Educational Cost	Total Students	Cost Per Student
1977	$ 88,000,000	35,000	$2,488
1982	$128,000,000	37,000	$3,449

* All total cost and total student figures are rounded
** Students computed as full-time-equivalents

The current funding pattern for educational costs is as follows.

Segment	TOTAL COST		STATE REVENUES		STUDENT REVENUES	
	$	Per Student	$	Per Student	$	Per Student
Community Colleges *	$101,000,000	$1,737	$42,000,000	$ 715**	$30,000,000	$521
State Colleges	$ 65,000,000	$2,078	$42,000,000	$1,337	$23,000,000	$741
University	$ 88,000,000	$2,488	$60,000,000	$1,704	$28,000,000	$784

* Local Subdivisions currently pay $29 million for operating community colleges ($501 per student).

** State funding in excess of $700 per student for small community colleges causes average to be $715.

If the State provides the same level of finding over the next five years, the following cost distribution would result in fiscal year 1982.

Segment	TOTAL COST		STATE REVENUES		STUDENT REVENUES	
	$	Per Student	$	Per Student	$	Per Student
Community Colleges *	$190,000,000	$2,473	$55,000,000	$ 715	$59,000,000	$ 773
State Colleges	$110,000,000	$2,905	$71,000,000	$1,868	$39,000,000	$1,037
University	$128,000,000	$3,449	$88,000,000	$2,362	$40,000,000	$1,087

* Local subdivisions would pay $76,000,000 ($985 per student).

Recommendations for changes in the current funding pattern are presented in the following sections.

State Aid to Community Colleges

If State aid is provided to community colleges at the current level, in fiscal year 1982, the State will be supporting only 29% of the total projected community college budget. The local subdivisions and the students will pay about $1800 as compared to about $1000 currently. An increase of $100 per student in the State's share of community college costs is appropriate at this time. This $100 increase will make $6 million more State money available to the colleges in fiscal year 1978 and about $8 million more in fiscal year 1982. Even so, the local subdivisions' cost will more than double in the next five years.

The State's Share of the Four-Year Public College Educational Program

As previously cited, the State currently provides 69% of the direct educational cost at the University and 64% of these costs at the State Colleges from general funds. A primary consideration in the funding policy of higher education is the cost that the student must pay in order to attend.

The cost to the student is more than the cost of tuition and fees. In addition, there is the living cost, the cost of books and materials, and other reasonable expenses. Tuition and fees are usually less than half of the total cost to the student in a public institution. The price charged the student should take into account the fact that an increase of $100 will tend to exclude about 1.5% of the students because they cannot afford the increase.

If the State were to provide approximately 70% of the educational cost, tuition and fees over the next five years would increase consistently with

the cost of living and the dropout impact would be minimized. The additional cost to the State would be about $5 million for FY 78 and about $8 million dollars by 1982. The distribution for fiscal year 1982 is as follows.

Segment	TOTAL EDUCATIONAL COST		STATE REVENUES		STUDENT REVENUES	
	$	Per Student	$	Per Student	$	Per Student
State Colleges	$110,000,000	$2,905	$77,000,000	$2,034	$33,000,000	$ 871
University	$128,000,000	$3,449	$90,000,000	$2,414	$38,000,000	$1,035

Faculty Salaries

All the projected total costs of education in this Report have dealt with the impact of inflation and enrollment increases on the present system and have not allowed for any cost increases beyond inflation. That is, in fiscal year 1977 dollars, the cost per students in the four-year colleges is expected to remain about the same over the five-year period. Yet during the last few years, high inflation has struck hard at the personal income of faculty members in the four-year colleges. Faculty salary increases have averaged substantially less than increases in the cost of living.

A minimum of a 3% average increase in salaries is desirable at this time. This would increase the total Higher Education budget by about 2%. The cost of the increase would be approximately $3 million in FY 77 and $5 million in FY 82. This would mean an increase in general funds of about $2 million in FY 77 and $3 million in FY 82.

Recommendations

1. THE STATE SHOULD MAINTAIN AS A MINIMUM LEVEL OF STATE SUPPORT THE PRESENT RATES OF SUPPORT OF HIGHER EDUCATION OPERATING COSTS. THIS BASE IS $700 PER FTE STUDENT AT THE COMMUNITY COLLEGES, 64% OF COSTS AT THE STATE COLLEGES AND UNIVERSITIES AND 69% AT THE UNIVERSITY OF MARYLAND.

2. IN ORDER TO PROVIDE A FAIR TUITION LEVEL FOR FOUR-YEAR PUBLIC INSTITUTIONS, THE STATE SHOULD SUPPORT APPROXIMATELY 70% OF DIRECT EDUCATIONAL OPERATING COSTS FROM GENERAL FUNDS. THIS WOULD COST THE STATE AN ADDITIONAL $5.4 MILLION IN FY 1978 AND $7.9 MILLION IN FY 1982 OVER AND ABOVE THE COST FOR PROVIDING THE MINIMUM BASE LEVEL OF SUPPORT.

3. THE STATE SHOULD INCREASE ITS SUPPORT FROM COMMUNITY COLLEGES TO $800 PER FTE STUDENT IN ORDER TO MAINTAIN ITS COMMITMENT TO SUPPORT THE EDUCATIONAL COSTS AT THESE INSTITUTIONS AT A SIGNIFICANT LEVEL. THIS WOULD COST THE STATE AN ADDITIONAL $6.4 MILLION IN FY 1978 AND $7.7 MILLION IN FY 1982 OVER AND ABOVE PROVIDING THE PRESENT MINIMUM BASE LEVEL OF SUPPORT. THE STATE BOARD FOR HIGHER EDUCATION CONCURS WITH THE RECOMMENDATIONS OF THE STATE BOARD FOR COMMUNITY COLLEGES TO ALLOW THE APPROVED PROJECTED ENROLLMENTS FOR COMMUNITY COLLEGES TO DETERMINE THE MAXIMUM DOLLAR AMOUNT THAT THE STATE WILL CONTRIBUTE TO COMMUNITY COLLEGES IN A GIVEN FISCAL YEAR (SEE APPENDIX B).

4. THE STATE SHOULD PROVIDE FACULTY IN FOUR YEAR PUBLIC COLLEGES AND UNIVERSITIES WITH A 3% SALARY INCREASE FOR FY 1978 OVER AND ABOVE RAISES REQUIRED TO MATCH INCREASES DUE TO INFLATION. THIS ACTION WOULD REQUIRE $2.4 MILLION NOW AND $3.3 MILLION ADDITIONAL IN GENERAL FUNDS IN FY 1982.

5. THE STATE BOARD FOR HIGHER EDUCATION SHOULD STUDY THE FEASIBILITY OF A STATEWIDE UNIFORM COST ACCOUNTING SYSTEM FOR HIGHER EDUCATION. IF IT IS DETERMINED THAT SUCH A SYSTEM IS FEASIBLE, IT SHOULD BE DEVELOPED FOR IMPLEMENTATION FOR FY 1979.

6. THE STATE BOARD FOR HIGHER EDUCATION SHOULD DEVELOP EVALUATION PROCEDURES TO DETERMINE THE EXTENT TO WHICH INSTITUTIONAL PROGRAMS ARE OPERATING EFFICIENTLY AND EFFECTIVELY.

7. THE STATE SHOULD CONSIDER PROVIDING SPECIAL DEVELOPMENTAL FUNDS FOR PUBLIC INSTITUTIONS UNDERGOING SIGNIFICANT CHANGES IN ROLE AND MISSION. THERE HAVE BEEN MAJOR CHANGES IN THE ROLE AND MISSION OF SEVERAL INSTITUTIONS IN THE LAST FEW YEARS. THE MASTER PLANNING PROCESS IS LIKELY TO LEAD TO ADDITIONAL CHANGES. THE PROVISION OF DEVELOPMENTAL FUNDS WILL HELP ENSURE ON EFFECTIVE TRANSITION WITHOUT FISCAL HARDSHIPS.

PART II. STATE FINANCING FOR PRIVATE HIGHER EDUCATION

The 1976 Report of the Chairman of the Fiscal Committees of the General Assembly included the following item.

> "Recommend that the Maryland Council for Higher Education study the method of financing aid to private colleges and universities. This study should consider how much aid is to be provided, the methods of making the aid available, and also in determining the amount of aid to be provided. The results of the study shall be reported to the Budget Committees by September 1, 1976."

It was this request, coupled with the continuing concern for private higher education that initiated this study. The Council (State Board) did inform the Chairman that a September 1, 1976 deadline would be most difficult to meet.

The initial task of the Committee was to define the limits and the scope of the study. It was decided that the study would be limited in scope to the charge of the Joint Chairman's Report and would involve only those colleges and universities eligible for the existing aid program (Article 77A, Sections 65-69, Annotated Code of Maryland). Those institutions included:

1. Antioch College
2. Bay College of Maryland
3. Capitol Institute of Technology
4. Goucher College
5. Hood College
6. The Johns Hopkins University
7. Loyola College
8. Maryland Institute of Art
9. Mt. St. Mary's College
10. College of Notre Dame
11. Peabody Institute
12. St. John's College
13. Villa Julie College
14. Washington College
15. Western Maryland College

Two institutions that were included in a study of private higher education conducted by the Council in 1973 were not included in this study: Ocean City College which closed in 1974 and the University of Baltimore which became a public upper level institution in 1975. Although there are more private colleges and universities in Maryland than the fifteen listed, none of these other institutions participate in the Aid Program for various reasons.

The Committee concluded that it would need to investigate the current and projected financial condition of the 15 institutions. It was decided to concentrate on 1974-75, 1975-76 financial data and projections of that data to 1980-81. Each institution was asked to report its financial data by similar categories and in a similar format so that most of the data would be compatible.

These reports were based on audit financial data for 1974-75, actual data, not yet audited, for 1975-76 and projections to 1980-81 by the Private college presidents and business officers using identified assumptions. This differs from the 1973 report which utilized an auditing firm, Touche-Ross and Company, to make the financial projections. These institutional projections indicate that nine of the institutions surveyed project deficits and of those nine, four project significant deficits in 1980-81.

Part of the charge of the 1976 Joint Chairman's Report called on the Council to ". . . . . Study . . . . . the methods for making the aid available . . . . ." The Committee, although influenced by the Supreme Court decision sustaining the direct grant program, none the less examined various methods by which other states provided general fund revenue to private institutions of higher education. The following methods of providing aid to the private institutions were examined for this study: direct grants to institutions, vouchers, categorical grants, contracts, income tax incentives, loans and direct grants to students.

The Committee, after examining these methods of aiding private colleges believes direct grants to institutions are the most efficient and effective way to provide state aid to these institutions. These grants provide institutions with the most flexibility for meeting their pressing financial problems. The direct grants also give institutions a steady and reliable

source of annual income. In addition, direct grants provide the State with a program which is easily administered and requires minimum State interference with the institutions.

The Committee believes that the present method of aiding private colleges and universities, the direct grant program, must be continued. This method of aiding the colleges was found to have distinct advantages, making it far superior to other methods examined by the Committee. Those advantages are as follow.

1. The program was held constitutional by a recent U.S. Supreme Court decision.

2. The direct grant program is related to the State's willingness to support the public four-year institutions of higher education in Maryland.

3. The grant gives the institutions the greatest flexibility to use aid to support those specific expenditures at a particular college in need of additional support.

4. The grant provides for continuity for institutional planning by these institutions through providing a predictable source of funding.

The Committee believes also that the basic premises on which the State's direct institutional grant formula was founded are still valid and should be stated again. They are as follow.

1. All institutions which can meet the eligibility criteria which appear on Article 77A, Sections 65-69 of the law should be permitted to participate.

2. The formula should be a student enrollment generated formula.

3. The formula should be directly related to the tax dollars spent for support of public higher education.

4. Specifications such as institutional size and faculty-student ratios should not be a factor in determining eligibility.

5. Institutions receiving State aid must be accountable to the State for the expenditures of the aid received.

6. The aid should be substantial enough to assist in the continued operation of most of the private colleges and universities.

In general the Committee found that a principal need of the private colleges is to alter, repair or add to their physical plant. The Committee discovered that most of the institutions examined during this study, as was true of private institutions studied in 1973, utilized the concept of "deferred maintenance" of the physical plant as a major method of cost reduction. This means that these colleges deferred major needed structural, electrical, and mechanical repairs of the physical plant in an effort to conserve revenues so they could be used for operating costs in other areas. The Committee believes that if enrollment remains stable or declines in the private sector over the next decade, the tendency of these institutions to use "deferred maintenance" as a cost saving tool will increase and the adequacy of many of the campuses may decrease due to deterioration of the physical plant. Facilities in need of repair also may have some effect on student choice of institution, thus, further reducing enrollment at these institutions.

The 1973 "Pear Report" contained a series of recommendations concerning State participation in facility grants to private institutions of higher education. These recommendations were never enacted, and, therefore, facility requests for the private sector were never subjected to Council (State Board) need tests applied to requests from the public sector.

With the enactment of S.B. 347, the State Board now has a formal role to play in reviewing capital project requests from both the private and the public sector. The law states: "The Board, in cooperation with the Department of State Planning, shall review proposals for capital projects and improvements desired by the public institutions of higher education in the State and by private institutions of higher education seeking State funds for such projects and improvements . . . . . ." The

Committee concluded that a formalized facility request procedure for the private colleges must be established that is similar to the one proposed by the "Pear Report" in 1973.

The Committee found during its examination that the private institutions often have student spaces and curricular offerings available that are desired by students and they stand ready to provide those opportunities to the citizens of Maryland. One of the major factors preventing the citizens of Maryland from taking advantage of these opportunities is the enormous tuition differences between the public and private sector. The tuition and fee gap reported in 1972 was $1,200.00. That amount increased to over $1,800.00 in 1975,and, given approximately a 6% inflation rate and consistent increase in the public sector, the tuition and fee gap could expand to nearly $2,000.00 by 1980. The survey conducted by the Committee indicated that the Presidents unanimously agreed that the increasing tuition and fee gap between private and public institutions represents one of their major concerns. Almost every institution eligible for aid uses part or all of that aid for financial assistance to its students in an effort to help them meet these ever increasing tuition charges.

The Committee feels that, in place of other viable alternatives, the State should find methods for using vacant spaces, under-enrolled programs, and high costs programs at the private colleges to their fullest extent. The Committee feels one way to accomplish this goal is by using contracts. At present, a number of states including Massachusetts, Minnesota, North Carolina, Oregon and, Pennsylvania have some type of contract system in existence with the private colleges in their states. Most of the contracts are for student spaces; that is, the State pays a fee to reserve a space for a student at a private college.

The State of Maryland already has contract arrangements with the Southern Region Education Board for various programs including Veterinary Medicine and Optometry spaces at out-of-state public and private institutions.

Recommendations

1. THE COMMITTEE RECOMMENDS THAT THE PRESENT STATE DIRECT AID PROGRAM BE MAINTAINED AS RECORDED IN ARTICLE 77A, SECTIONS 65-69 OF THE ANNOTATED CODE OF MARYLAND.

2. THE COMMITTEE BELIEVES THAT LEGISLATION SHOULD BE INTRODUCED TO INCREASE THE PERCENTAGE OF GENERAL FUND SUPPORT PROVIDED THESE INSTITUTIONS PER F.T.E. STUDENT FROM ITS PRESENT LEVEL OF 15% TO 20%.

The Committee bases its judgement on the following.

A. The weighted average tuition and fee gap between the public and private institutions continues to widen. In 1972 the difference was $1208 and by the fall of 1975 the difference had widened to over $1800.

B. These institutions continue to defer needed plant maintenance and are, as a result, spending approximately $.90 less per square foot than the public colleges for such costs. The activities which are being deferred include keeping buildings in a good state of repair, providing the personnel and materials required to maintain facilities in sound usable condition and maintain their good appearance, and care and development of grounds, roads, and parking lots. If a typical private institution would expend the amount necessary to bring it to public college levels, the cost would represent approximately $500,000.00 annually.

C. The differential for compensation of faculty at the private institutions continues to lose ground to the public institutions. Excluding The Johns Hopkins University and the University of Maryland-College Park because of their size, the public institutions are able to pay, on an average, 20% higher salaries to their professors, at all ranks, than the private institutions can pay.

D. The cost to the State of absorbing one of these institutions into the State system of higher education is enormous when related to aiding all of the private institutions. Based on current figures, the cost to the State of this program if increased to the 20% level would be approximately $7,200,000 or a $2,000,000 increase over the $5,200,000 budgeted for FY 1978. The University of Baltimore, which was once private but is now a public institution, received $3,000,000 in general fund support in FY 1977. Subtracting out the aid they would have received had they remained private ($1,300,000) leaves

$1,700,000 in General Fund support to maintain just one institution. This represents 24% of the total which would be awarded to all the private colleges and universities if the program is increased to the $7,200,000.

3. THE STATE BOARD FOR HIGHER EDUCATION SHOULD DETERMINE WHAT ACTION, IF ANY, MAY BE TAKEN BY THE BOARD RELATING TO ANY PRIVATE INSTITUTION HAVING SIGNIFICANT FINANCIAL DEFICITS.

The Committee was concerned that even with the formula increasing to 20% that this increase, when applied across the Board, will not be in sufficient amounts to assist private institutions which may develop significant deficits in the future. Although the financial data was based on projections by the institutions, rather than an independent auditing firm, the Committee believes that these projections are generally reasonable and therefore can be regarded as an indicator that the program, even at 20%, will not be sufficient to alleviate the possible future financial deficits which some of these institutions may face.

4. THE COMMITTEE RECOMMENDS THE FOLLOWING PROCESS BE FOLLOWED FOR REVIEWING CAPITAL PROJECTS FROM THE PRIVATE COLLEGES AND UNIVERSITIES FOR WHICH STATE FU. S ARE BEING REQUESTED.

A. The private colleges and universities submit their capital projects to the State Board in the format, on the time schedule, and with the justification required by the State Board.

B. State support be limited to the types of facilities and costs which are eligible for State funding at the public institutions of higher education.

C. The State grant will be not more than 50% of the total capital cost of the facility.

D. Capital projects will be considered for funding according to the following order of priorities:

First priority must be given to projects essential for safety, protection of property or loss of federal funds or other revenues and those which will provide major savings in operational expenses.

Next priority will be given to projects urgently needed to preserve the integrity of an existing function. This will be interpreted strictly and will not allow for a project where the main benefit is greater convenience or more space for comfort.

Third priority will be given to those projects needed to accomodate an approved increase in a given function. However, there must be a clear indication that alternatives have been considered and found not to be practical.

5. THE COMMITTEE RECOMMENDS THAT BEFORE NEW ACADEMIC PROGRAM REQUESTS FROM PUBLIC INSTITUTIONS ARE APPROVED THAT CONSIDERATION BE GIVEN TO WHETHER OR NOT PROGRAM AND STUDENT SPACES EXIST IN THE PRIVATE SECTOR AND WHETHER OR NOT A CONTRACT CAN BE DEVELOPED. THE COMMITTEE ALSO RECOMMENDS THAT AS A RESULT OF S.B.347 THE STATE BOARD FOR HIGHER EDUCATION HAVE THE FINAL AUTHORITY TO RECOMMEND THE AMOUNT OF CONTRACTS TO THE DEPARTMENT OF BUDGET AND FISCAL PLANNING. IN GENERAL THE COSTS TO THE STATE FOR ANY CONTRACT SHALL NOT EXCEED THE DIFFERENCE BETWEEN THE TUITION/FEES REQUIRED AT THE PUBLIC COLLEGE AND THE COST OF TUITION AND REQUIRED FEES AT THE PRIVATE INSTITUTION THAT IS A PARTY TO THE CONTRACT.

PART III. STATE CAPITALIZED STUDENT LOAN PROGRAMS

Maryland And The Federal Guaranteed Student Loan Program

In Maryland the Higher Education Loan Corporation (HELC) is the guarantee agency for student loans made under the Federal Guaranteed Student Loan (GSL) Program. In Fiscal Year 1975, the HELC approved $7,661,553 worth of loans. In that year, 5,929 loan applications were approved, with the average loan amount being $1,292.

At the present time in Maryland, all guaranteed student loans are made by commercial lenders; the State itself does not act as a lender under the GSL program. Problems arise from the fact that student loans usually are considered to be less profitable than the other investment options open to banks. Consequently, many banks in Maryland are reluctant to service large volumes of student loans. Some segments of the State's student population are therefore unable to obtain loans to meet post-secondary education expenses. A parallel situation has existed in most states nationwide. As a result, eleven states have initiated programs by which the state itself acts as lender under the GSL program.

Principal for these loan programs is provided by the state through revenue bonds, direct appropriations from the legislature, or state investment pools. States usually have designed these programs to meet the eligibility requirements specified for the Guaranteed Student Loan Program described above. This is done so that the state capitalized program can benefit from the Federal government's "special allowance" to lenders under the GSL program and so that students borrowing money can receive federal interest subsidies on their loans. In these cases, the state programs do not replace the Federal GSL program; rather, the state becomes a "lender of last resort" for students unable to obtain loans from the private sector.

Other States' Experience

The states which have state capitalized loan programs include Wisconsin, Minnesota, North Carolina, Texas, Florida, Kentucky, New Jersey, New Mexico, Georgia and South Carolina. Michigan and Oklahoma are initiating such programs. Through conversations with loan program administrators it was determined that each state's program had its own distinct characteristics. Although there are many points of difference among the programs, the main variations appear to be:

1. the nature of bank participation in the program (e.g., as direct lenders or as purchasers of bonds or both); and,
2. the manner in which loans are insured (i.e., directly insured by the federal government, or insured by the state with the federal government providing reinsurance).

Broadly speaking, there appear to be two basic models for state capitalized loan programs.

1. In by far the most prevalent model, the state capitalized program is supplemental to the student loan volume handled by commercial lenders under the Guaranteed Student Loan program. Examples of states following this model include: Wisconsin, Texas, Georgia, Kentucky, Florida, Michigan, Oklahoma, Minnesota and New Jersey.

2. In the second model, the state acts as the sole lender to students. Banks do not act as lenders. South Carolina has adopted this model. The programs in North Carolina and New Mexico approach this model in that private sector lending under the GSL program is virtually nonexistent

in these States. Instead, banks contribute to the availability of student loans by purchasing the revenue bonds used to finance the loan programs.

The capital for state funded loan programs is provided through (1) the sale of revenue bonds, (2) direct appropriations from the legislature or, (3) a state investment pool. By far the most prevalent financing mode is the sale of tax exempt revenue bonds. Bonding is used by North Carolina, South Carolina, Texas, New Mexico, Florida, Michigan and Oklahoma. Two states--Georgia and Kentucky-- finance their programs through direct appropriations from the state legislature. Wisconsin currently receives funds for its program through a state investment pool, but is considering abandoning this mode in favor of bonding. In most states it has been possible to operate the loan program in a manner that allows the state to capture federal funds to cover most of the program's administrative costs. Further assistance in the financing of state loan programs is provided by the Student Loan Marketing Association (SALLIE MAE), a quasi-governmental corporation created in 1973 as a secondary marketing source to help banks handle liquidity problems and thus to free more funds for student loans. Minnesota has used SALLIE MAE as an integral part of its strategy for financing student loans.

As previously noted, most states attempt to establish loan eligibility requirements that will meet those set for the Federal government's GSL program and, therefore, enabling the state program to benefit from the federal government's "special allowance" to lenders and allowing student borrowers to receive federal interest subsidies on their loans. Accordingly almost all state capitalized loans are need-based. The actual assessment of individual financial need is the responsibility of different entities in different states. Among the possible places to lodge this responsibility are banks, education institutions, and state agencies. In an attempt to

increase the availability of loans to persons exceeding the income limit for the GSL program, Georgia encourages banks to make loans to these students by offering to make the interest payment for students while they are in school. In addition to the need factor, some states build residency requirements into their programs. States also establish variable criteria governing the availability of loans to students attending public vs. private vs. proprietary institutions and students attending in-state vs. out-of-state institutions.

Recommendations

1. MAINTAIN THE EXISTING HIGHER EDUCATION LOAN CORPORATION (HELC) AS THE STATE GUARANTEE AGENCY UNDER THE FEDERAL GOVERNMENT'S GUARANTEED STUDENT LOAN (GSL) PROGRAM.
2. CREATE A 5 MILLION DOLLAR STATE CAPITALIZED STUDENT LOAN PROGRAM THAT WOULD SERVE AS A "LENDER OF LAST RESORT" TO STUDENTS WHO HAVE TRIED UNSUCCESSFULLY TO OBTAIN LOANS THROUGH COMMERCIAL LENDERS. THE PROGRAM WOULD BE ADMINISTERED BY THE EXISTING HELC. THE STATE WOULD BE CONSIDERED AS ONE OF THE MANY LENDERS UNDER THE GUARANTEED STUDENT LOAN PROGRAM CURRENTLY ADMINISTERED BY THE HELC. ACCORDINGLY, LOANS MADE BY THE STATE AS LENDER WOULD BE INSURED BY THE STATE (HELC), WITH REINSURANCE BEING PROVIDED BY THE FEDERAL GOVERNMENT. THE "LENDER OF LAST RESORT" PROGRAM COULD BE FINANCED BY A RELATIVELY SMALL STATE APPROPRIATION. COMMERCIAL LENDING IN COOPERATION WITH THE HELC WOULD CONTINUE TO BE THE PREDOMINANT MECHANISM FOR PROVIDING STUDENT LOANS.
3. ALL GUARANTEED STUDENT LOANS--INCLUDING THOSE PROVIDED BY THE STATE AS LENDER--WOULD BE VIEWED AS PART OF A FINANCIAL AID PACKAGE THAT WOULD DRAW UPON FEDERAL AND STATE GRANTS AND WORK-STUDY PROGRAMS AS WELL AS LOANS IN AN EFFORT TO MEET THE EDUCATIONAL EXPENSES OF THE INDIVIDUAL STUDENT.

4. ELIGIBILITY REQUIREMENTS FOR THE STATE CAPITALIZED STUDENT LOAN PROGRAM SHOULD INCLUDE AS A BASE THE ELIGIBILITY REQUIREMENTS ESTABLISHED FOR THE FEDERAL GOVERNMENT'S GUARANTEED STUDENT LOAN (GSL) PROGRAM. THIS WILL ALLOW THE STATE AS LENDER TO BENEFIT FROM THE FEDERAL "SPECIAL ALLOWANCE" TO LENDERS AND WILL ALLOW STUDENTS BORROWING FROM THE STATE CAPITALIZED PROGRAM TO RECEIVE FEDERAL INTEREST SUBSIDIES.

5. THE POLICY DETAILS OF A STATE CAPITALIZED STUDENT LOAN PROGRAM SHOULD BE DETERMINED BY A COMMITTEE INCLUDING: THE HIGHER EDUCATION LOAN CORPORATION, THE STATE BOARD FOR HIGHER EDUCATION, THE DEPARTMENT OF BUDGET AND FISCAL PLANNING, THE DEPARTMENT OF FISCAL SERVICES, LEGISLATORS INTERESTED IN THE LOAN PROGRAM, REPRESENTATIVES OF THE BANKING COMMUNITY, REPRESENTATIVES OF FINANCIAL AID OFFICERS IN THE STATE'S POSTSECONDARY INSTITUTIONS, AND A CONSULTANT FROM ONE OF THE NINE STATES THAT CURRENTLY OPERATES A STATE CAPITALIZED LOAN PROGRAM.

APPENDIX A

COST PROJECTIONS USING BUDGET GUIDELINES

APPENDIX A

COST PROJECTIONS USING BUDGET GUIDELINES

In order to reasonably assess the financial needs of higher education in Maryland during the next several years, extensive effort was devoted to the development of a cost projection model to be used for this purpose. This Appendix discusses the development of the techniques used for making the cost projections presented in this report.

Development of Budget Guidelines For Making Cost Projections

The main requirements for a cost projection model appropriate for the purposes of this study appeared to be: (1) that it be applicable to most budget categories which are jointly supported by State general funds and student fees; (2) that it be flexible enough to permit cost projections to be made under a variety of differing assumptions about such factors as enrollment levels, average class sizes, average teaching loads, salary levels, and inflation rates; (3) that it take into account quantitative data to the maximum extent practicable; and, (4) that it permit comparability among segments for similar activities while at the same time providing for differences in functions.

As a starting point in the development of a State cost projection model, budgeting models in other states were reviewed to determine to what extent they met these requirements. The approaches which appeared to be most appropriate were the formula or guideline budgeting methods used to some extent in about half the states. These methods, to varying degrees, assign costs to institutional activities based on mathematical formulas.

Certain characteristics of state formulas indicate the difficulty of directly utilizing any specific approach for this study. Because formulas and guidelines tend to differ from state to state, even when similar approaches are used, it was apparent that the method used would have to be based to a large extent on local characteristics. Those formulas and guidelines which were highly complex appeared for a number of reasons to be inappropriate for the purposes of this study. First, highly complex formulas and guidelines required extensive and long-term cost analysis. Second, Maryland lacks the uniform cost accounting procedures that would be required to support these complex approaches. Finally, the purpose of this study was to develop a flexible and general projection model, rather than one that was rigid and detailed. Those formulas which were quite general, on the other hand, did not provide enough detail to permit an understanding of how costs in different categories behaved under differing conditions and tended not to provide sufficient documentation to permit an assessment of their reasonableness.

As an alternative to using only a single State's formula or guidelines directly and to developing formulas of either extreme complexity or generality, an eclectic approach was undertaken in the development of a cost projection model. It was decided to incorporate appropriate features of other state's formulas or guidelines which appeared to be reasonably consistent from state to state and to develop a projection model of moderate quantitative complexity. It was hoped that this would permit the cost projection model to incorporate the strengths of formulas and guidelines used in other states while avoiding some of the disadvantages that the extreme approaches tend to have.

The model developed for this study is most appropriately termed a guideline rather than a formula approach. This is because an attempt was made to derive an average cost of each activity for segments of institutions rather than to deal with the unique characteristics at each institution which contributed to variation in expenditure patterns. For the most part, however, expenditure patterns were consistent enough from institution to institution to allow reasonable estimates of activity costs to be obtained.

The budget categories for which guidelines were developed were: Instruction, General Administration, Libraries, Student Services, Public Safety, and Plant Operation and Maintenance.

Instruction

The instructional component of the model was extensively researched due to its importance and complexity. Review of historical data and of formulas and guidelines used in other states identified several factors which were influential in determining instructional costs. It was decided that these could appropriately be considered in estimating costs for the instructional component of the cost projection model. The factors which were used are explained below.

Type of Instruction. Formulas and guidelines in several states recognize a difference in costs based on difference in instructional methodology employed. Some subject areas tend to require a good deal more contact between instructor and student and a good deal more time in laboratory-type instruction than do others. On the other hand, some subjects lend themselves to relatively larger lecture situations and less personal student-faculty contact.

Level of Instruction. Most state formulas and guidelines recognize that different costs are associated with different levels of instruction. Instruction at advanced levels of study tends to require relatively greater faculty-student contact and more in-depth concentration than do lower levels of study.

Class Size. Class size is to a large extent a function of the method of instruction that is appropriate for any given subject area and of the level at which instruction is provided. Several states use some measure related to average class size for different subject areas and levels of instruction as the basis for estimating costs.

Teaching Load. Teaching loads also tend to vary to some extent by subject area and by level of instruction. Laboratory-type instruction and higher levels of study require greater amounts of faculty time for preparation and for individual contact with students. This tends to decrease the formal teaching load. Several states use a measure related to faculty teaching load by subject area and by level of instruction as the basis for estimating instructional costs.

Faculty Salaries. Salary levels vary both with rank and experience. They tend to exert their greatest influence on costs for different levels of study due to the fact that faculty with higher rank and more experience tend to teach advanced students. There also tends to be some salary variation among disciplines due to differences in demand in the academic job market.

Operating Costs. Different subject areas have different levels of operating costs due to varying requirements for equipment and supplies. Therefore, in disciplines in which relatively high costs are incurred for equipment and supplies, the proportion of the instructional budget used for faculty salaries is lower than in disciplines with lower operating costs.

The above factors were combined mathematically to arrive at instructional cost estimates. It was decided that credit hours would be used as the basis for estimating instructional costs in order to take into account credit hours generated in all subject areas - for both majors and non-majors taking courses. Using historical data, faculty salaries, operating expenses, teaching loads, and class sizes were averaged for different areas of study and for four levels of instruction. The areas of study were grouped into major subject area categories. The levels of instruction studied were lower division, upper division, graduate, and graduate research. The following formula was used as the basis for relating the above factors to one another.

$$\text{Credit Hour Cost} = \frac{\text{Annual Faculty Salary}}{\text{Teaching Load} \times \text{Average Class Size} \times \text{\% of Instructional Budget for Faculty Salaries}}$$

In this formula, credit hour costs increase with an increase in faculty salary or with any decrease in teaching load, class size, or the percentage of the instructional budget devoted to faculty salary (i.e., an increase in the percentage spent for operating expenses). The result was a set of costs for each major subject area and for each of the four levels of instruction offered in each area.

The results made it possible to classify disciplines according to their relative costs. As expected, these costs tended to correspond reasonable well with the type of instructional methodology which was employed. It was thus possible to classify academic programs into three groups representing similar types of instruction and costs. These categories are shown in Table 1.

TABLE 1

Assignment of Programs in Major HEGIS Categories
to Type of Instruction

1. High Laboratory Intensity

0100	Agriculture and Natural Resources
0200	Architecture and Environmental Design
0900	Engineering
1200	Health Professions
1900	Physical Sciences

2. Mixed Laboratory - Lecture

0400	Biological Sciences
0600	Communications
0700	Computer and Information Sciences
0800	Education
1000	Fine and Applied Arts
1100	Foreign Languages
1300	Home Economics
1400	Law
1500	Letters
1600	Library Sciences
1700	Mathematics
4900	Interdisciplinary Studies

3. High Lecture Intensity

0300	Area Studies
0500	Business and Management
2000	Psychology
2100	Public Affairs and Services
2200	Social Sciences

The lowest average instructional costs generally were found to be associated with lower division courses taught primarily using lecture methodology. In order to facilitate cost comparisons between different years and with other states, the average costs for other categories were divided by this lowest cost. The result was a set of relative weights which express instructional costs as a multiple of the lowest cost (which was set equal to 1.0). This set of relative cost weights is shown in Table 2. As indicated by Table 2, a graduate credit hour in a program relying primarily

on lecture methodology costs on the average of about 2.4 times as much as one at the lower division level. Likewise, a credit hour at the lower division in a laboratory-intensive program costs 2.5 times as much as one in a lecture-intensive subject area.

TABLE 2

Relative Costs Per Credit Hour For Instruction

Instructional Methodology	Lower Division	Upper Division	Graduate	Graduate Research
High Lab	2.5	3.2	6.0	20.0
Mixed Lab-Lecture	1.5	1.9	3.6	12.0
High Lecture	1.0	1.2	2.4	8.0

In order to make cost comparisons with formulas employed by other states, it was also necessary to weight their costs in terms of the lowest cost credit hour. Such comparisons indicate that the relative weights shown in Table 2 reasonably approximate estimates made in many of the formulas employed by other states.

This approach has the additional advantage that it provides for ease in estimating costs and projecting them under differing assumptions. Using the formula for determining credit hour costs, the cost for only the lower division--lecture-intensive category (weight equals 1.0) has to be determined. Costs for other categories can then be estimated by multiplying the various cost weights by this estimate. To determine total instructional costs, the cost per credit hour in each category is multiplied by the number of credit hours projected for each category.

In order to approximate the appropriation for FY 1977, the following factors were used to estimate credit hour costs in the lowest cost category. It was assumed that a course at the lower division level in a lecture in-

tensive subject area on the average would be taught by an assistant professor earning $15,000 annually. It was further assumed that the statewide average for such a faculty member was a teaching load of 24 hours per year with an average class size of 30. Also, the percent of the instructional budget devoted to faculty salaries at such a level and in such a discipline was estimated to be 85%. The credit hour cost is given by the following formula.

$$\text{Credit Hour Cost} = \frac{\text{Annual Faculty Salary}}{\text{Teaching Load} \times \text{Class Size} \times \text{\% of Instructional Budget for Faculty Salaries}}$$

$$= \frac{\$15,000}{24 \times 30 \times .85}$$

$$= \$24.51$$

When this Costs is multipled by the cost weights for the other categories the following estimates of cost results:

Type of Instruction	Level of Instruction: Lower Division	Upper Division	Graduate	Graduate Research
Laboratory	$61.27	$78.43	$147.06	$490.20
Mixed Lab-Lecture	36.76	46.57	88.24	294.12
Lecture	24.51	29.41	58.82	196.08

This approach allows cost estimates to be made by varying any of the factors in the formula and then multiplying the resulting costs by the weights. For example, the costs associated with an increase in quality through a decrease in average class size would be computed as follows:

$$\text{Credit Hour Cost} = \frac{\$15,000}{24 \times 25^{*} \times .85}$$

$$= \$29.41$$

*Class Size = 25 instead of 30

Type of Instruction	Level of Instruction: Lower Division	Upper Division	Graduate	Graduate Research
Laboratory	$73.53	$94.12	$176.47	$588.24
Mixed Lab-Lecture	44.12	55.88	105.88	352.94
Lecture	29.41	35.29	70.59	235.29

Likewise, the changes in instructional costs which would occur with changes in faculty salaries, in teaching loads, or in operating expenses could also be calculated.

General Administration

General administration expenditures deal with administrative costs associated with the operation of the entire institution. Most state formulas and guidelines relate the level of costs for this activity to the size of the instructional budget. Historical data indicated that costs for administration could be estimated as a percentage of the instructional budget. It was found that the best estimates could be obtained if this percentage varied with institutional size to take into account differences in economies of scale. The mathematical formula used to obtain the best fit to historical data was: % = 8.6 + 24,800/FTE (up to 27). The percentages it yields for institutions are indicated below.

Size in FTE's	% of Instructional Budget Added for Administration
1000	27.0
3000	16.9
5000	13.6
7000	12.1
9000	11.4
11,000	10.9
13,000	10.5
30,000	9.4

Thus, if an institution had an instructional budget of $1,000,000 and had 7,000 FTE students, this formula would estimate its administrative expenses to be about $121,000.

Public Safety

This category was not as commonly found as a separate item in the formulas of other states as were the other guideline categories. An analysis of historical data indicated that a reasonable estimate of costs for public safety could be obtained by a mathematical formula which provided for decreasing unit costs (costs per FTE student) as institutional size increased. The formula which is used to approximate the FY 1977 appropriation is: Cost/FTE = 49.5 + 51975/FTE. This yields the following costs for FY 1977 data.

Size in FTE's	Cost Per FTE
1000	101.48
3000	66.82
5000	59.90
7000	56.93
9000	55.28
11,000	54.23
13,000	53.50
30,000	51.23

Student Services

Other states use a variety of approaches to estimate costs in this category, but most are related to some measure of the number of students on campus. Historical data indicated that costs in this category could be

estimated using a method similar to that used by public safety--decreasing unit costs with increasing institutional size. The formula which approximates the FY 1977 appropriation for this category (excluding funds for student financial aid) is: Cost/FTE = 185 + 51900/FTE. This results in the following costs.

Size in FTE's	Cost Per FTE
1000	236.90
3000	202.3
5000	195.38
7000	192.41
9000	190.77
11,000	189.72
13,000	188.99
30,000	186.73

Libraries

While there is wide variety in the approaches used by other states to estimate library costs, most use the number of students or the proportions of students at various levels of study as a factor in their formula. It was found that reasonable estimates could be obtained by taking both student credit hours and level of study into consideration. The formulas for approximating the FY 1977 appropriations yield the following costs estimates.

COST PER CREDIT HOUR

Size of Institution (Total Credit Hours)	Undergrad	Grad	Grad Research
30,000	9.54	28.43	47.72
90,000	5.81	17.42	29.04
150,000	5.06	15.18	25.30
210,000	4.74	14.22	23.70
270,000	4.56	13.69	22.81

COST PER CREDIT HOUR (Continued)

Size of Institution (Total Credit Hours)	Undergrad	Grad	Grad Research
330,000	4.45	13.35	22.24
390,000	4.37	13.11	21.85
750,000	4.16	12.49	20.82

Plant Operation and Maintenance

Other states generally use quite complex formulas to determine costs for this category. Most use square feet of building space as a factor. The approximation to the FY 1977 appropriation is provided by the following formula:

Total Cost = $2.32 x Gross Square Feet Maintained

Inflation Rates Used For Projecting Costs

In order to project costs through FY 1982, the following annual inflation rates were applied to the guideline formulas beginning with FY 1978. A composite inflation rate of 6.5% resulted.

1. Instruction. Faculty salaries were increased by 6% per year over the FY 77 levels.
2. Libraries. Total costs for library operations were increased by 7% per year over the FY 77 levels.
3. Plant Operation and Maintenance. Costs per gross square foot were increased by 8% annually over the FY 77 rate.
4. Student Services and Public Safety. Costs for these categories were increased by 6% annually.
5. General Administration. This category was inflated automatically as the instructional budget increased.

APPENDIX B

FINAL REPORT OF THE TASK FORCE TO

STUDY COMMUNITY COLLEGE FUNDING

MARYLAND STATE BOARD FOR COMMUNITY COLLEGES

State Treasury Building
Annapolis, Maryland 21404

FINAL REPORT OF THE TASK FORCE TO STUDY COMMUNITY COLLEGE FUNDING *

The governor's charge to find a mechanism by which a set dollar figure for State Aid to Community Colleges could be placed in the annual State budget, with no deficit carry-overs into the next fiscal year, created a difficult problem for the Task Force. The Task Force was concerned with the impact any revision to the current funding mechanism would have on the current open admissions philosophy. The Task Force did, however, recognize the necessity and urgency in the Governor's charge since he is bound by statute to plan and present to the General Assembly an annual State budget based upon balanced revenues and expenditures.

Therefore, the Task Force, after exploring several alternatives in depth, proposed that the current funding mechanism be revised as follows:

> The State Board for Community Colleges will annually establish fulltime equivalent student enrollment projections for the community college system for State aid payment. These projections would be developed in consultation with each community college and the Maryland Council for Higher Education (new State Board for Higher Education). These projections would be finally approved by the State Board for Community Colleges in concurrence with the Department of Budget and Fiscal Planning. These projections would be based upon established criteria to include, but not limited to, historical enrollment data (numbers and percentages); high school graduation data; percent of county population served by the college; local economic conditions; unemployment rates; and the impact of various federally funded programs, that is, veterans, law enforcement, nursing and scholarship programs. If the community college system exceeds the enrollment projections, there will be no additional State funding, nor will there be any deficits carried forward into the next fiscal year. If the community college system does not meet the projections, the difference between the actual and projected budget figures will revert back to the State. This mechanism would provide for the establishment of a rational budgeting process by which the college could plan for an anticipated student enrollment and would allow for the planned college programmatic priorities to serve projected student enrollments. Since State projections are made two years in advance of actual enrollments, they should not be the only factor considered in final approval of community college budgets by the local political subdivisions.

* Note: This copy has been retyped from the original.

The Task Force also believes that the problem facing community colleges is twofold. One problem is the enrollment picture dealt with above. The other problem is the base level of support.

The current formula calls for the State to contribute per-student costs up to a maximum of 50 percent of $1,400. This formula has not been revised for six years and costs have risen to such an extent over this period so that the State currently provides only 38 percent of the actual per-student costs.

The Task Force recognizes that there are limited resources available but wished to indicate to the Governor that the current level of funding for community colleges is simply unrealistic. It is anticipated that adoption and implementation of the funding procedures previously recommended will provide a framework within which an increase in the funding formula can be seriously considered.

Finally, the Task Force indicated that after the Governor had expressed his views on an interim report, each constituency involved with community colleges, including the State Board, the local boards of trustees, the Presidents' Council, and the Association of County Governments be asked for their comments and reactions. After these reactions have been received, a copy of the final report and the reactions will be forwarded to the Governor.

APPENDIX C

COST PROJECTIONS

FY 77 - FY 82

TABLE C-1
ESTIMATED ENROLLMENTS, COSTS, AND INFLATION

Fiscal Year	FTE Students	% Change	% Inflation[1]	Total Cost	% Change
			Community Colleges		
1977	58,147			$101,000,000	
1978	64,433	10.8%	6.5%	126,274,925	25.0%
1979	68,883	6.9	6.5	142,745,520	13.0
1980	71,872	4.3	6.5	157,818,608	10.6
1981	74,345	3.4	6.5	173,241,336	9.8
1982	76,883	3.4	6.5	190,152,160	9.8
Total		32.2%	37.0%		88.3%
			State Colleges		
1977	31,497			$ 65,449,120	
1978	33,044	4.9%	6.5%	74,216,596	13.4%
1979	34,366	4.0	6.5	82,465,985	11.1
1980	35,618	3.6	6.5	91,768,336	11.3
1981	36,802	3.3	6.5	100,853,075	9.9
1982	37,764	2.6	6.5	109,741,696	8.8
Total		19.9%	37.0%		67.7%
			University of Maryland		
1977	35,309			$ 87,838,116	
1978	35,563	0.7%	6.5%	94,554,728	7.6%
1979	35,751	0.5	6.5	101,491,479	7.3
1980	36,149	1.1	6.5	109,394,564	7.8
1981	36,642	1.4	6.5	118,414,599	8.2
1982	37,107	1.3	6.5	127,998,312	8.1
Total		5.1%	37.0%		45.7%
			All Segments		
1977	124,953			$254,287,236	
1978	133,040	6.5%	6.5%	295,356,614	16.2%
1979	139,000	4.5	6.5	326,702,980	10.7
1980	143,639	3.3	6.5	358,981,508	9.9
1981	147,789	2.9	6.5	392,509,004	9.3
1982	151,754	2.7	6.5	427,892,168	9.0
Total		21.4%	37.0%		68.3%

[1] Average Impact of 6% for Salaries, 7% for Libraries, and 8% for Plant Operation and Maintenance

TABLE C-2

ESTIMATED COSTS PER FTE STUDENT IN FY77 AND CURRENT DOLLARS

Fiscal Year	Cost Per FTE (Current Dollars)	% Change	Cost Per FTE[1] (FY77 Dollars)	% Change[2]
		Community Colleges		
1977	$1,737		$1,737	
1978	1,960	12.8%	1,840	6.0%
1979	2,072	5.7	1,827	-0.7
1980	2,196	6.0	1,818	-0.5
1981	2,330	6.1	1,812	-0.3
1982	2,473	6.1	1,805	-0.4
Total		42.4%		3.9%
		State Colleges and Universities		
1977	$2,078		$2,078	
1978	2,245	8.0%	2,108	1.4%
1979	2,399	6.8	2,116	0.0
1980	2,576	7.4	2,132	0.1
1981	2,740	6.4	2,131	0.0
1982	2,905	6.0	2,120	-0.5
Total		39.8%		2.0%
		University of Maryland		
1977	$2,488		$2,488	
1978	2,658	6.8%	2,496	0.3%
1979	2,838	6.8	2,503	0.3
1980	3,026	6.6	2,505	0.1
1981	3,231	6.8	2,512	0.3
1982	3,449	6.7	2,518	0.2
Total		38.6%		1.2%
		All Segments		
1977	$2,037		$2,037	
1978	2,217	8.8%	2,082	2.2%
1979	2,350	6.0	2,072	-0.5
1980	2,499	6.3	2,069	-0.2
1981	2,656	6.3	2,065	-0.2
1982	2,820	6.2	2,058	-0.3
Total		38.4%		1.0%

[1] Current dollars are converted to FY77 by removing the amount due to inflation after FY77.

[2] Decreases after FY78 are due to estimated efficiency increase that will occur due to increases in campus sizes except at the University of Maryland where the smaller campuses will experience the most growth. At Community Colleges, FY77-78 increase is due to operations at below guideline estimates for FY77. FY77-78 increase at State Colleges is due to operations at below guideline estimate at University of Baltimore for FY77.

TABLE C-3
COST PROJECTIONS FOR OPERATING COSTS NOT COVERED BY GUIDELINES *

Fiscal Year	Total Cost	% Increase
1977	$105,811,550	
1978	114,060,348	7.8%
1979	125,863,395	10.3
1980	136,635,002	8.6
1981	147,952,857	8.3
1982	160,445,059	8.4
TOTAL		51.6%

TABLE C-4
PROJECTIONS OF TOTAL OPERATING COSTS

Fiscal Year	Total Cost	% Increase
1977	$360,098,786	
1978	409,416,962	13.7%
1979	452,566,375	10.5
1980	495,616,510	9.5
1981	540,461,861	9.1
1982	588,337,227	8.9
TOTAL		63.4%

* Includes University of Maryland - Baltimore City, University Hospital, Cooperative Extension Service, Center for Environmental and Estuarine Studies, Fire and Rescue Institute, UMCP Computer Science Center, and State College Desegregation Funds.

APPENDIX D

STATE RANKINGS ON THREE MEASURES

The following table indicates the ranking of states on three measures.

1. Column 1 indicates the share of Education and General revenues provided by each state to public four-year institutions. This percentage was calculated by dividing state funds provided by the total funds received from the state and from students combined.

2. Column 2 indicates the undergraduate tuition and fees charged full-time residents at each state's major public university for fall, 1976.

3. Column 3 is each state's ranking on an index of the amount of outright grants it makes available to its citizens who attend public institutions of higher education. The average grant available was calculated by dividing the total amount of need-based grants awarded to each state's residents during 1975-76 by the number of state residents enrolled in its public institutions during 1975-76.

State Share of Student - State Revenues (FY 75) (1)		Undergraduate Tuition and Fees At Major State Universities (2)		Average Grant Available per Resident Enrolled in Public Institutions (3)	
1. Alaska	88.2%	1. Vermont	1,245	1. Pennsylvania	342
2. W. Virginia	88.2	2. New Hampshire	982	2. Vermont	291
3. Idaho	87.6	3. Rhode Island	899	3. New York	266
4. S. Carolina	87.1	4. Ohio	810	4. Illinois	223
5. Texas	86.5	5. Michigan	800	5. New Jersey	172
6. Massachusetts	85.3	6. Pennsylvania	800	6. Iowa	158
7. Washington	85.2	7. Delaware	795	7. Indiana	150
8. California	84.0	8. Minnesota	772	8. Minnesota	135
9. Florida	83.9	9. Connecticut	764	9. Rhode Island	124
10. Hawaii	83.7	10. New Jersey	732	10. Wisconsin	113
11. Louisiana	83.4	11. Indiana	722	11. South Carolina	102
12. Illinois	83.2	12. Maryland	718	12. Massachusetts	96
13. Connecticut	82.3	13. Colorado	711	13. Colorado	96
14. Arkansas	82.0	14. Illinois	700	14. Connecticut	91
15. N. Carolina	82.0	15. Virginia	694	15. Ohio	89
16. Georgia	80.9	16. Iowa	682	16. Michigan	74
17. Iowa	80.5	17. New York	675	17. California	53
18. Wyoming	79.9	18. Florida	675	18. Kansas	48
19. Arizona	79.4	19. South Dakota	658	19. W. Virginia	46
20. New York	79.0	20. South Carolina	654	20. Missouri	36
21. Kentucky	77.7	21. Wisconsin	630	21. Oregon	21
22. Missouri	77.6	22. California	625	22. Maine	27
23. Kansas	76.8	23. Nevada	622	23. Kentucky	25
24. Mississippi	76.8	24. Georgia	615	24. Florida	24
25. Nevada	76.8	25. Mississippi	603	25. Texas	24
26. New Mexico	76.8	26. Nebraska	602	26. Washington	24
27. N. Dakota	76.5	27. Alabama	595	27. Maryland	13
28. Minnesota	76.3	28. Massachusetts	591	28. S. Dakota	13
29. Montana	76.1	29. Maine	587	29. Delaware	13
30. Utah	75.5	30. Missouri	584	30. Georgia	12
31. S. Dakota	75.3	31. Kansas	576	31. N. Dakota	12
32. Wisconsin	75.2	32. Oregon	573	32. Arkansas	11
33. Oklahoma	75.1	33. Washington	564	33. Virginia	11
34. Rhode Island	74.7	34. Texas	559	34. Utah	9
35. Tennessee	74.7	35. Montana	529	35. Nebraska	7
36. Alabama	74.4	36. N. Dakota	528	36. Oklahoma	6
37. New Jersey	73.8	37. Utah	525	37. N. Carolina	6
38. Oregon	73.8	38. Kentucky	480	38. Hawaii	6
39. Nebraska	73.7	39. Hawaii	478	39. Louisiana	6
40. Maine	71.5	40. Alaska	472	40. Montana	5
41. Michigan	70.4	41. N. Carolina	467	41. Idaho	5
42. Virginia	70.3	42. New Mexico	456	42. Mississippi	4
43. Indiana	68.8	43. Tennessee	453	43. Alabama	0
44. Maryland	67.2	44. Arizona	450	44. Alaska	0
45. Colorado	66.1	45. Oklahoma	445	45. Arizona	0
46. Pennsylvania	65.4	46. Wyoming	434	46. Nevada	0
47. Ohio	60.4	47. Arkansas	400	47. New Hampshire	0
48. Delaware	60.0	48. Idaho	400	48. New Mexico	0
49. New Hampshire	46.8	49. W. Virginia	372	49. Tennessee	0
50. Vermont	44.4	50. Louisiana	330	50. Wyoming	0

(1) Source - National Center for Educational Statistics, Financial Statistics for FY 75, not yet published.

(2) Source - Higher Education Directory DHEW, 1976

(3) Source - Survey by Illinois State Scholarship Commission, 1976, for 1975-76 year.